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E-Commerce in Japan

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Contents

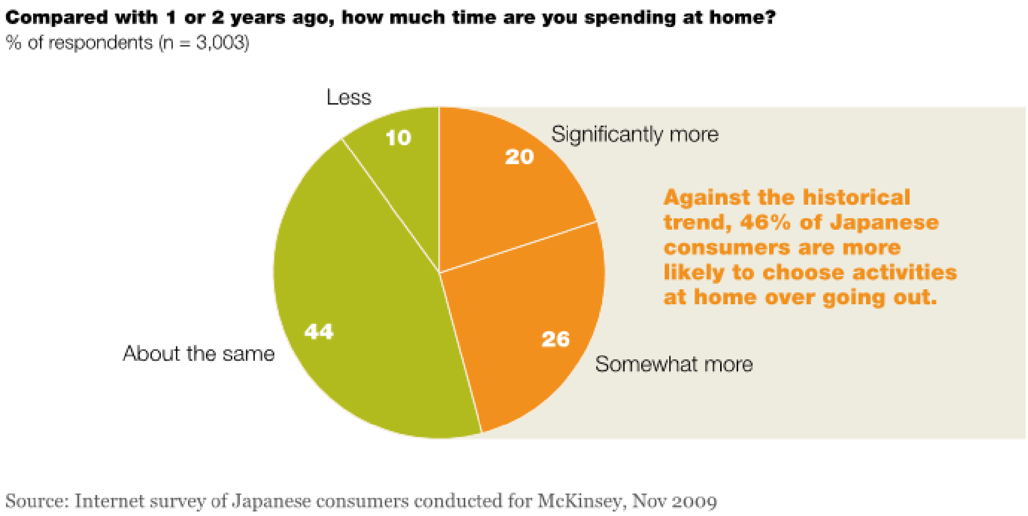
1. Executive Summary/Abstract

Due to the high diffusion rate of (mobile) internet and an extraordinary interest in new technical opportunities, shopping online has become part of everyday life in Japan (Nikkei Marketing Journal cited in Lafage 2011: 50). Although many Japanese consumers had been reluctant in the initial phase of e-commerce, sales volumes of the whole sector as well as spending per capita are steadily increasing. There are different consumer groups with specific preferences, like the groups of the elderly and low-income earners, but they all share their expectations regarding website design, delivery time, payment methods, special offers for gift giving seasons, customer service and overall quality. E-commerce in Japan is partly dominated by three big players that are well known outside Japan, but also by several smaller Japanese shops. Thus, setting up a successful online business in Japan is a complex interplay of paying attention to Japanese characteristics and regulations as well as to the actions of the main players on the market.

2. Description/Scope of Coverage

One parameter supporting e-commerce's steady growth in Japan is the fact that Japanese people are spending more and more time at home. Due to long working and commuting hours as well as small flats or houses, Japanese people were used to spend little time at home. According to a survey almost 50 percent of the participants answered that they started to spend somewhat or significantly more time at home. This time is mainly used for surfing the internet, watching television, reading newspaper, sitting around in the house or listening to music (Salesberg 2010).

Figure 1: Time spent at home



Source: Salesberg (2010): http://www.mckinsey.com/insights/consumer_and_retail/the_new_japanese_consumer

This report covers some basic information on import and specific e-commerce regulations including tax matters. The main part of the report is dedicated to the market analysis which is thought to give a comprehensive overview of the main issues of the market. It deals with Japanese consumers, their internet and shopping behaviour, main actors on the market and key factors that support the growth of the market and those that could be challenging for participating companies. Thus, this report should enable the reader to find required information for import and customs procedure, to understand the main characteristics of Japanese (online) shopping behaviour and to avoid mistakes that have been done by other companies before.

3. Regulation for export to and sale in Japan

Since the e-commerce market seems to be an industry of future growth, the Japanese government supports its establishment and enlargement by revising related laws and guidelines. Especially in the case of overseas online trade, the Japanese government is active in creating better conditions for domestic companies (e.g. cross-border e-commerce taxation). Although Japanese overseas purchase volume is still comparably low, its importance is steadily growing (GTAI 2014a: n.p.).

a. Import regulations

Due to the limitations of this report and the heterogeneous nature of businesses it is not possible to cover all regulations that are important in every single case. Therefore, the following part of the report should rather be seen as a possibility to get a first impression of Japanese regulations. For more detailed information links are given within the text as well as at the end of the report.

i. Customs procedure

Goods that are imported into Japan by sea have to be announced at least 24 hours before arrival at the port of destination. For goods that are brought to Japan by air the deadline is 3 hours.

A commercial invoice with the names of both contracting parties, name of the item, volume, weight, conditions of delivery as well as the bill of loading are necessary documents for customs clearance which always falls to the Japanese importer. The importer has the choice between the following customs clearance methods:

- Free circulation
- Shipping procedure
- Temporary usage
- Refinement
- Bonded storage

(GTAI 2014b).

Especially for food products as well as for other commercial goods import restriction have to be considered. Further information, standards and regulations can be found at JETRO (Japan External Trade Organization). Under Sections 1 the organization also provides unofficial translations of major import and trade related laws and regulations like the Food Sanitation Act, Quarantine Act, Plant Protection Act, Electrical Appliance and Material Safety Act, Household Goods Quality Labelling Act, Consumer Product Safety Act. Section 2, a handbook of import regulations, covers Consumer and Industrial Product Import Regulations and several information that are associated with the import of food products.

Please see: http://www.jetro.go.jp/en/reports/regulations/

If the items to be imported to Japan do not fulfil the regulations they will be destroyed by the customs office or re-exported.

ii. Tariffs and taxes

Goods imported into Japan are subject to customs duty and consumption tax. In addition to consumption tax, certain other internal taxes (liquor tax[1], tobacco tax, etc.) are also applicable to dutiable imported goods.

To identify the tariff on the specific good more easily Japan also applies the worldwide harmonized coding scheme (HS) which consist of 6 digits for every item (4 digits for the position plus 2 digits for the sub-position). In addition, there are four more digits added in the case of Japan to further specify the items. Thus, the Japanese HS numbers are 10 digits long (GTAI 2014b: 5).

Tariff rates and further import dues are available at the market access database of the EU commission: http://madb.europa.eu/madb/datasetPreviewFormATpubli.htm?datacat_id=AT&from=publi

The taxable base is the tariff value which is calculated by the transaction value of the imported goods, i.e. actual price paid or to be paid. Agent's commission, packing and material costs, costs for loading and unloading as well as delivery to the target location including insurance have to be added. Table 1 shows some examples of tariff rates for products imported to Japan. Since Japan is following the worldwide trend of closing bilateral free trade agreements, there are two tariff rates to be differentiated. For some product groups, the agreements are beneficial for exporters from participating countries since they have to pay lower tariffs (MFN rate) than exporters from countries without free trade agreements (GEN duty). There are products without any difference between these two rates, but there are also items where the difference can be extremely high, like for coffee or snowboard boots.

Table 1: Exemplary tariff rates on products

HS Code	Product	Tariff Rate in percentage GEN duty	Tariff Rate in percentage MFN duty
6402.12.01	Ski boots	27.0	27.0
6402.12.09	Snowboard boots	20.0	8.0
6111.20.15	Babies' garments and clothing accessories, knitted or crocheted, of cotton Gloves, mittens and mitts	9.0	7.4
2203	Beer made from malt	6.4 JPY/l	0.0
0901.21	Coffee (roasted, not decaffeinated)	20.0	12.0
4903	Children's picture, drawing or colouring books	0.0	0.0
4419.00.11	Half splitted disposable chopsticks (Waribashi): Of bamboo	5.6	4.7
0406.30	Processed cheese, not grated or powdered	40.0	40.0
0409	Natural honey	30.0	25.5
9101.11	Wristwatches, electrically operated, whether or not incorporating a stopwatch facility, with mechanical display only	0.0	0.0

MFN (most-favoured nation): A most favoured nation (MFN) clause is a clause in a trade agreement between two nations providing that each will extend to the other any trading privileges it extends to third nations.
GEN (General): The General Rate is applicable to all goods not originating in countries falling under the MFN treatment or to goods of unknown or doubtful origin.
Source: EU Commission, Market Access Database, by the author

[1] Liquor tax (LQT)
Liquor tax is levied at a rate of 178125 JPY per kilolitre for low malt beer with a ratio of malt exceeding 25% but not exceeding 50%, whilst low beer with a ratio of malt not exceeding 25% is taxed at a rate of 134250 JPY per kilolitre (EU Commission, Market Access Database)

As already quoted above, besides tariffs all imported goods are also subject to consumption tax. There is only a limited number of exceptions like aids for disabled people and books. Goods with a value below 10.000 Yen are completely excluded from consumption tax.

Currently, the consumption tax is 8 percent for all goods imported into or manufactured in Japan. In April 2014 the tax rate has been increased from 5 percent to 8 percent and shall further be raised to 10 percent in October 2015 (postponement to 2017 currently under discussion). The amount of consumption tax an importer has to pay for his items is calculated on the basis of the items' values plus the customs duty payable. In some cases other excise taxes have to be paid, too (Japan Customs 2014).

Additional costs can also be made up of customs clearance fees if it lies outside of the opening hours. During normal office hours (8.30 a.m. to 5 p.a.) of the customs office customs clearance is free of charge.

iii. International vs. domestic shipping

Besides considerations on taxation, fumigation (e.g. in case of food products) and other import regulations, European companies that are planning to sell their products online in Japan have to think about shipping internationally or domestically. For both options, there are pros and cons that will shortly be discussed below.

International shipping seems to be a good opportunity in the initial phase. Since no office has to be set up, the costs are low in the phase of product or shop introduction. Another advantage is the fact, that inventory is easier to manage when it is located in the headquarter only. In the long run the higher shipping costs get expensive with a growing number of orders. It is also detrimental that delivery is (much) slower, in the case of Japan a really crucial point. In line with the longer shipping time and distance, the risk of damage or loss is also getting higher.

A company that plans to ship domestically should consider the following points. The shorter delivery time and the lower risk of damage are obvious advantages as well as the cheaper shipping costs in the long run. But, companies also have much higher setup costs, because they need someone to manage their inventory (warehouse) or do it on their own. Of course, there are some local companies that are specialised in managing inventory of foreign companies.

b. Specific e-commerce regulations

The **IT basic law** (The Basic Bill for the Formation of an Advanced Information Communication Network Society) came into effect in 2001 and although it deals with necessary measures for facilitating e-commerce, it hardly refers to e-commerce directly. Legal measure concerning e-commerce are more specifically covered by other laws.

"In Japan, contracts are governed mainly by civil law. Under civil law, the general principle is that no formalities are necessary for making a contract. However, some specific laws, such as the **Instalment Sales law** ('Kappu Hanbai Hou'), obligate a seller to provide a document specifying important items, for example, the total price of the item being sold, the amount of each instalment to be paid and payment method and time. The object of such a provision is mainly to provide protection for consumers. However, it is clear that such a regulation would reduce the benefits of e-commerce, which enables parties to conduct transactions without paper. Thus, it was desirable to amend such laws with respect to e-commerce, while minimising the harm to consumers. On 27 November 2000, a bill to amend such laws (50 in total) was passed by the Diet. The law came into force on 1 April 2001. As a result of the amendment, subject to the consent of the recipient, the sender or seller may use electronic means such as e-mail instead of paper." (Law Gazette Singapore 2001).

A contract is deemed to be formed when a notice of acceptance is dispatched by the offeree. After that, even before this notice reaches the vendor, neither party may cancel the contract. In March 2001 a bill was being prepared. providing that article 526, paragraph 1 and article 527 of the civil law shall not apply in the case of an electronic notice of acceptance, which means that agreements are formed when a notice of acceptance reaches the other party (the offeror), in the event that such notice is sent by computer or facsimile.

With regard to consumer protection, the same bill provides special treatment regarding mistakes by consumers which occur when consumers dispatch an offer or acceptance of an agreement through computers. Under article 95 of the civil law, the expression of intention (*ishihyouji*), for example, an offer or acceptance of an agreement, by mistake shall be void except for a mistake caused by gross negligence (Law Gazette Singapore 2001).

Especially for transactions that are performed via internet it is important to check and confirm the identities of both contracting parties. The **Electronic signature law** "aims to promote the diffusion of information using electronic methods and information processing through securing the smooth utilization of electronic signatures, and thereby to contribute to the improvement of the citizen's quality of life and the sound development of the national economy, by establishing such provisions as the presumption of the authenticity of electro-magnetic records, the provisions for accreditation with regard to designated certification services and the prescription of other necessary matters concerning electronic signatures". (METI 2015: http://www.meti.go.jp/english/report/data/gesign1e.html). According to METI the electronic signature is a measure to indicate that the information was created by the person who performed it and/or a measure that can confirm whether or not any alteration of the information has been done.

"With respect to e-commerce, such identification may be difficult because there is always a possibility of someone giving a false identity by changing data through the internet (and in virtually all cases one party does not personally meet another party). Recently, the electronic signature and identification business have been developing. However, under Japanese law, there is no law by which such electronic signature or identification business is given legal effect. Under article 228, paragraph 5 of the Civil Procedure law, the authenticity of a document is presumed when a signature or seal of a person is affixed thereto. With respect to an electronic signature, that presumption is not made. Under the Electronic Signature law, an electronic signature will have the same legal effect as a signature or seal under certain conditions." (Law Gazette Singapore 2001).

Further information can be found at the homepage of the Ministry of Justice, available at
http://www.moj.go.jp/ENGLISH/information/rotlf-12.html
as well as http://www.soumu.go.jp/main_sosiki/joho_tsusin/eng/Resources/Legislation/eSignLaw/eSignLaw.pdf.

c. Authorities responsible

Since exporting an item to another country and vice versa importing it is a comprehensive procedure there are many authorities involved. Following there is a list of responsible ministries/organizations, their Japanese names and links to their respective website. (Note that this list is not exhaustive.)

Table 2: Authorities responsible

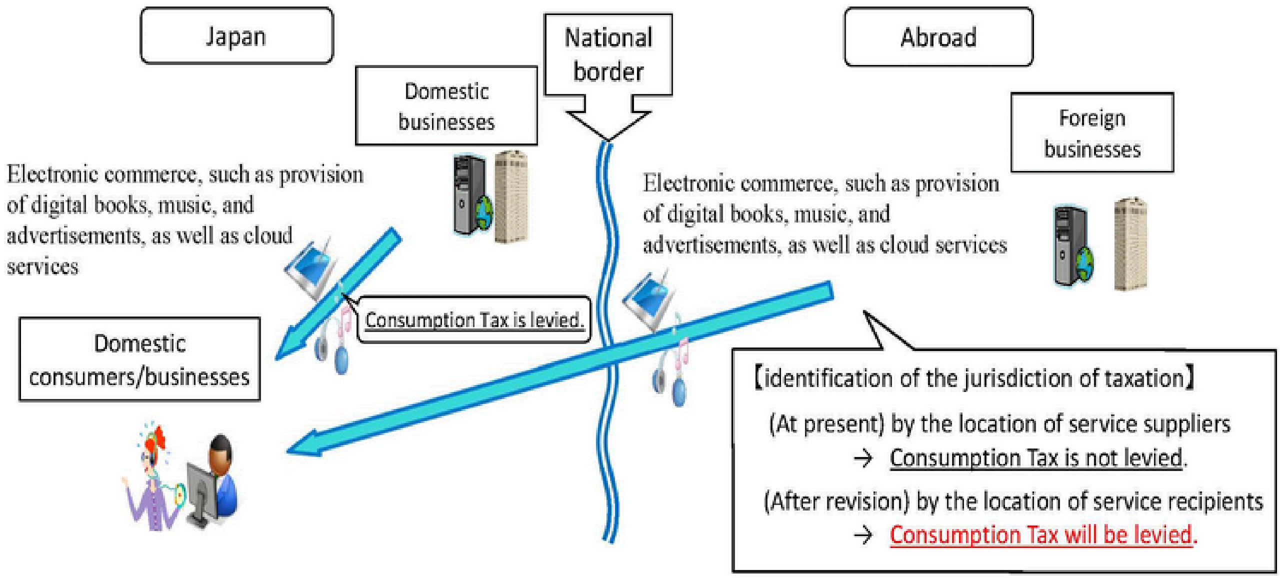
Organization	Japanese name	Website
Ministry of Finance (MoF)	財務省 (zaimu-shō)	http://www.mof.go.jp/english/
Ministry of Economy, Trade and Industry (METI)	経済産業省 (keizai-sangyō-shō)	http://www.meti.go.jp/english/
National Tax Agency (NTA)	国税庁 (kokuzei-chō)	http://www.nta.go.jp/foreign_language/
Japan External Trade Organization (JETRO)	日本貿易振興機構 (nihon bōeki shinkōkikō)	https://www.jetro.go.jp/en/
Japan Customs	税関 (zeikan)	http://www.customs.go.jp/english/index.htm
Ministry of Justice (MoJ)	法務省 (hōmu-shō)	http://www.moj.go.jp/ENGLISH/
Fair Trade Commission	公正取引委員会 (kōsei torihiki rinkai)	http://www.jftc.go.jp/en/
Ministry of Agriculture, Forestry and Fisheries	農林水産省 (nōrin-suisan-shō)	http://www.maff.go.jp/e/

Source: by the author

4. Tax matters: Cross-Border-E-Commerce Taxation

In the context of the FY 2015 tax reform the revision of consumption taxation on cross-border supplies or services (provision of digital books, music and advertisements) will be effective from October 1st, 2015. This extension of Japan Consumption Tax coverage will then include cross-border supplies of electronic commerce by foreign businesses that have not been subject to taxation beforehand. Under regulations valid until October 2015 taxes had to be paid for almost every domestic transaction and import of foreign goods, but not for the performance of e-commerce services by service providers outside of Japan. This divergence led to disadvantages for Japanese domestic businesses that offered services for Japanese customers from within Japan, because they had to pay taxes and their foreign competitors not (Ministry of Finance 2015: n.p.).

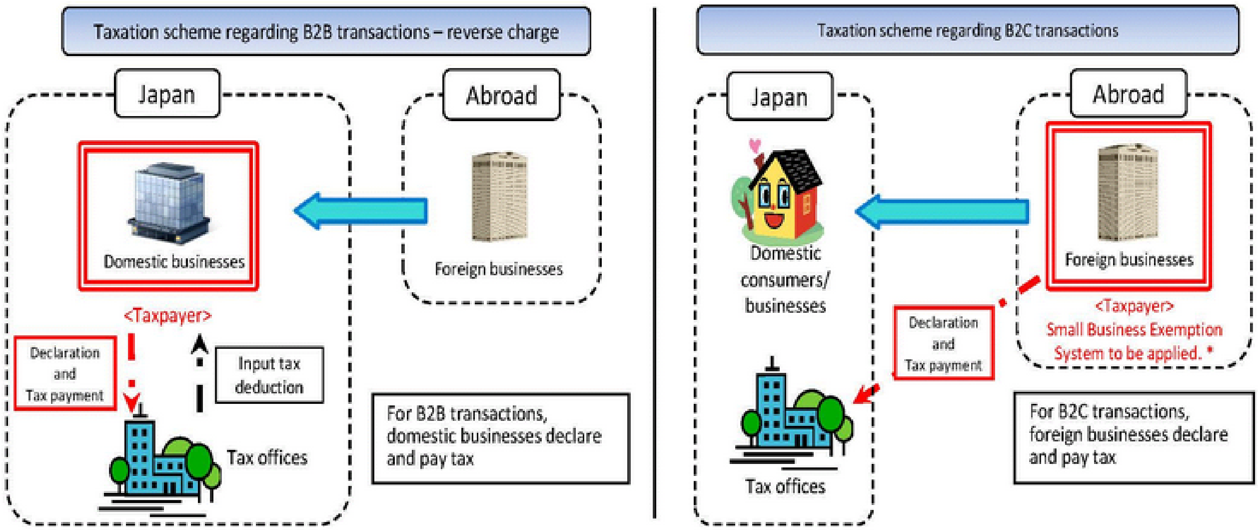
Figure 2: Cross-Border-E-Commerce Taxation



Source: Ministry of Finance Japan (2015): Revision of Consumption Taxation on Cross-Border Supplies of Services, http://www.mof.go.jp/english/tax_policy/tax_reform/fy2015/tax2015ct.htm

The new regulations distinguish between business-to-business (B2B) and business-to-consumers (B2C) transactions. For B2B transactions, e.g. provision of advertisement, a reverse charge mechanism[2] will be introduced (see figure 3, left side). In regard to B2C transactions, the foreign business declares and pays the tax (see figure 4, right side).

Figure 3: Taxation sheme



*A business whose taxable turnover in Japan (FY 2013) is equal or less than 10 million JPY is exempt from tax filling on Japanese Consumption Tax (FY 2015).
Source: Ministry of Finance Japan (2015): Revision of Consumption Taxation on Cross-Border Supplies of Services, http://www.mof.go.jp/english/tax_policy/tax_reform/fy2015/tax2015ct.htm

A registration system for foreign businesses has been established starting from July 1st, 2015. In case the foreign tax payer does not have an office in Japan the company has to name a Japanese resident to whom tax documents of the tax payer can be delivered (*nouzei kanrinin*) or to have a qualified agent (*zeimu dairinin*).

According to Daiwa Research Institute (cited in GTI 2014: n.p.) the Japanese government could have collected approximately 25 bn. Yen in 2013 when the taxation regulations had already been enacted before. Due to internet technologies tax legislation of 1989 had not been up to date anymore and, thus, had to be revised.

For further information see also:

Ministry of Finance: (tax reform) http://www.mof.go.jp/english/tax_policy/tax_reform/fy2015/tax2015ct.htm

National Tax Agency: (consumption tax) https://www.nta.go.jp/foreign_language/consumption_tax/04.htm

[2] Reverse Charge Mechanism: Mechanism in which service recipients are required to pay the taxes. Under normal conditions, service providers are forced to do so (MoF 2015: n.p.)

5. Market Analysis for e-commerce in Japan

a. Definition of e-commerce and Japanese peculiarities

i. What is e-commerce?

Electronic commerce, commonly abbreviated as e-commerce, is part of the electronic business that covers purchasing and selling goods and services via electronic connections. It is every kind of business transaction that is performed without physical interaction of both contracting parties (Gabler Wirtschaftslexikon: http://wirtschaftslexikon.gabler.de/Archiv/400/e-commerce-v13.html).

For the Japanese Ministry of Finance, electronic commerce includes services that are supplied via electronic and telecommunication networks, but excludes ancillary to other transactions (MoF 2015: n.p.).

Generally e-commerce can further be defined according to its range (i.e. in a wider or narrow sense) and in a more practical or scientific way.

E-Commerce in a wider sense

"Transactions that are conducted (purchase orders are issued) via computer network systems using Internet technologies and whose contract amounts are captured also via such systems. "Internet technologies" refers to technologies using the TCP/IP protocol suite, and include the Internet via public lines, extranet, Internet VPN, IP-VPN, etc." (METI 2014: http://www.meti.go.jp/english/press/2014/0826_01.html)

E-Commerce in a narrow sense

"Transactions that are conducted (purchase orders are issued) via computer network systems and whose contract amounts are captured also via such systems. E-commerce in a wide sense includes e-commerce in a narrow sense plus conventional EDI not using VAN, dedicated lines, or the TCP/IP protocol suite (such as EDI using the JBA procedures or EIAJ procedures, etc.)" (METI 2014: http://www.meti.go.jp/english/press/2014/0826_01.html)

The usage of the term "e-commerce" is not consistent in literature. It is often used synonymously with "online shopping" or "online retailing". But that is too narrow, because it does not include transactions between different companies and between companies and public organisations. Main elements of e-commerce are business transactions between two or more companies (B2B) or between companies and end-consumers (B2C). Therefore the consulting company KPMG has published a definition saying that

Electronic commerce is a concept for the usage of information and communication technologies to electronically integrate and interlock diverse value chains or inter-company business processes as well as the management of business relationships (translation by the author based on Webagency 2015b).

To sum it up, e-commerce includes

- to sell products via internet
- to exchange information via internet
- to offer comprehensive customer service

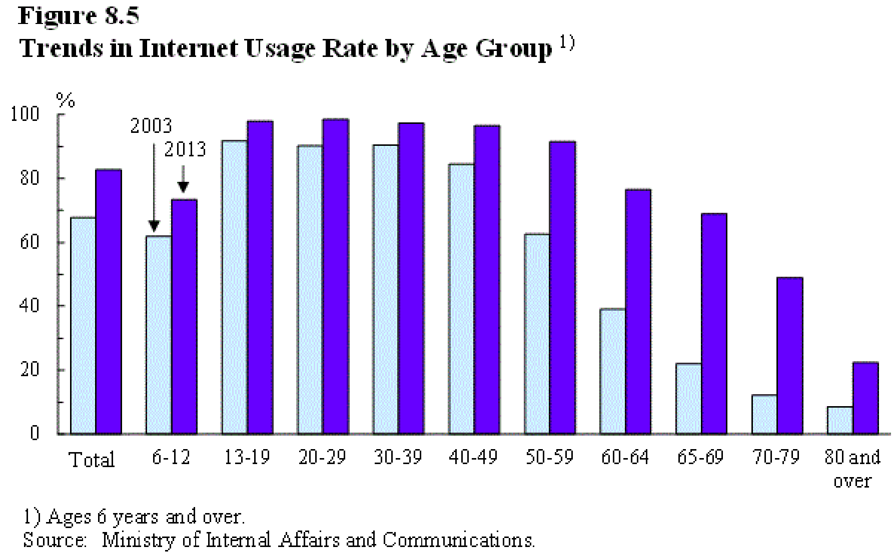
(Webagency 2015a).

ii. Japanese internet usage

In 2013 the number of people who used the internet over the last year was 100.44 million in Japan whereby the number of users exceeded 100 million for the first time. The internet usage rate for Japanese citizens between 13 and 59 was more than 90 percent for every subgroup in the given cohort.

Figure 4 shows the Japanese internet usage rate by age group in 2003 and 2013 for all Japanese citizens who were 6 years and older. Although the usage rate for every single age group increased during the last 10 years, the amount of increase has been different between the groups. Due to the already high usage rate of people between 13 and 49 years in 2003 the increase has only been small compared to the group of the elderly. The highest growth rate has been recorded for the group of internet users between 65 and 69 years with a plus of approximately 50 percentage points (2003: 20%, 2013: 69%), followed by the group of people between 60 and 64 years as well as 70 and 79 years (Statistical Handbook of Japan 2014).

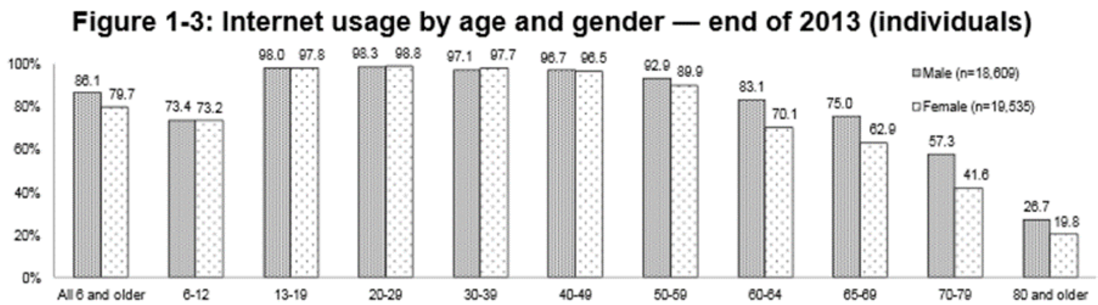
Figure 4: Trend in internet usage by age group 2003 and 2013



Source: Statistical Handbook of Japan 2014, Chapter 8, Part 3

According to the Ministry of Internal Affairs and Communication's estimation Japan's female population between 18 and 59 years is 31.84 million. With a female internet usage rate of 95.7 percent 30.47 million women in Japan surf the internet. For all age cohorts between 6 and 49 years the internet usage rate of male and female Japanese consumers is more or less balanced. Starting with the age group of 50 to 59 year old Japanese citizens, the share of male internet users is always higher than that of women (Ministry of Internal Affairs and Communication).

Figure 5: Internet usage by age and gender



Source: Ministry of Internal Affairs

Although Japan has long been known for its low penetration rate of personal computers at home the usage rate of home PCs to connect with the internet was the highest with 58.4 percent. Since Japan has been a pioneer in mobile internet the usage rate of smartphones for connecting with the internet is also comparably high with 42.4 percent. Especially in the age groups between 20 and 39 the usage rate of smartphones is higher than that of home PCs (Statistical Handbook of Japan 2014). In 2007 Japan had already more than 100 million mobile phone subscribers with 7.87 million of them accessing the internet by their mobile device (compared to 78.13 million via PC, Lafage 2011: 49).

Popular websites in Japan are still Yahoo.co.jp and Rakuten.co.jp. Rakuten Ichiba keeps growing in case of total transaction value and sales value per participating store. Due to the high number of stores, the number of products offered is also very high: more than 150 million (Euromonitor 2015).

Recent statistics show that the most popular social networks in Japan are Twitter and Facebook, followed by local platforms like Mixi and LINE. As of May 2013, Twitter recorded 21.75 million unique visitors from Japan. Despite the heavy mobile app and messenger usage, the active social media penetration was only 17 percent in 2014, thus ranking Japan on the lower end of online social user engagement in Asian countries (Statista 2014: http://www.statista.com/topics/2361/internet-usage-in-japan/) .

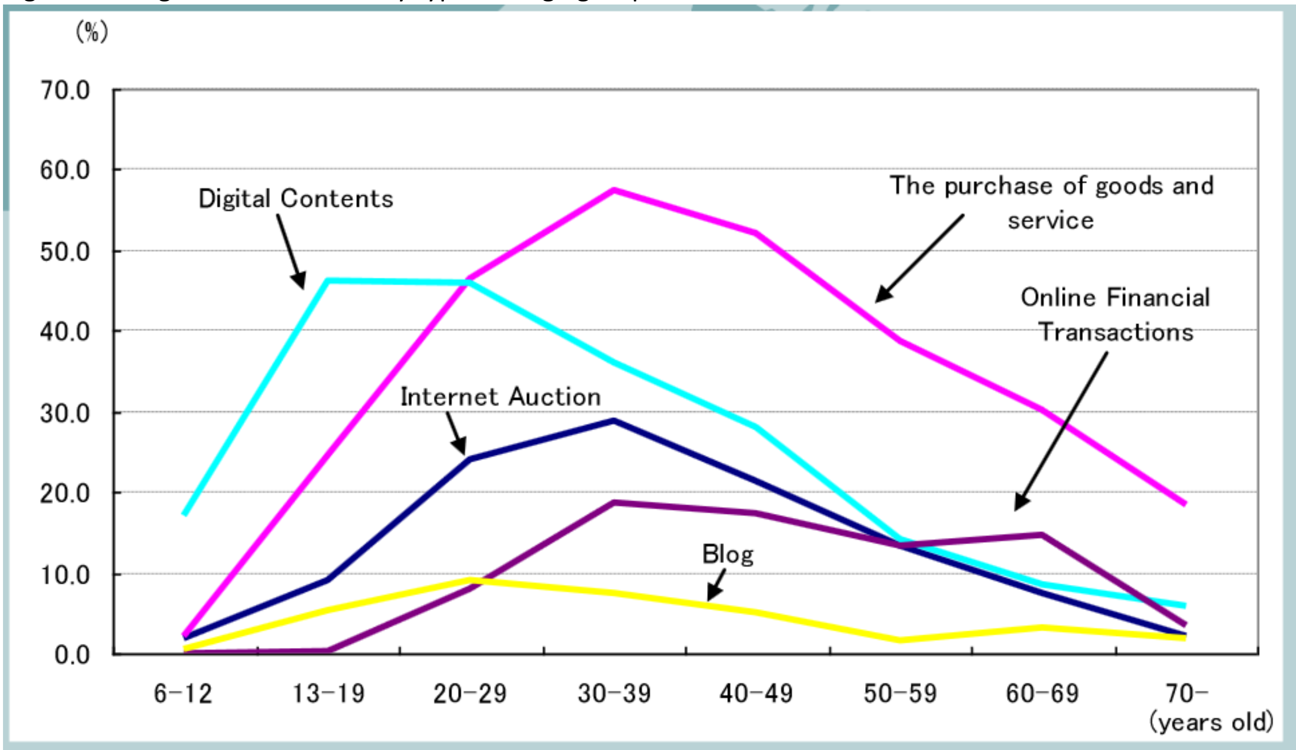
iii. Japanese online buyers – who purchases which items online?

Japanese consumers are known for their high quality consciousness and their interest in luxury and/or brand products. They are affluent and set trends in Asia. Important characteristics of the Japanese consumer market are the rapidly aging population (with 30 percent older than 65 years in 2024, forecast) together with a lower fertility rate, lower income equality due to an increasing number of single households and non-regular employment as well as above-average service orientation (Agriculture and Agri-Food Canada 2015: 2).

In recent years, the general attitude towards shopping has changed from price intensive luxury shopping towards a more price-conscious purchase behaviour. Thus, the internet is an interesting opportunity for low-income shoppers who are still looking for a high quality goods and an advanced after-sales service (Haghirian 2015: 230). It is obvious that elderly consumers increased internet usage and that they purchased online more often. Consequently, growth rates for the cohort of the age groups of 51-60 with 23 percent, 61-70 with 21 percent and 71-80 with 18 percent were above average. According to industry experts this trend will continue in the following years. That is the reason why online shops started to target elderly consumers who prefer shopping online due to their limited mobility. There were also comparably high growth rates within the group of the lower-income earners. Purchases by households with a yearly income between 2 million and 3 million Yen increased by 44 percent. The reason seems to be their pressure to look after their expenses and the possibility to save money by comparing prices online (GTI 2014: n.p.).

Figure 9 does not only show which age groups are active in e-commerce in Japan, but also which type of e-commerce the groups prefers. It is obvious that purchasing goods and services via internet is the most important activity Japanese consumers perform online. For the group of Japanese consumers under 20 years the percentage of digital contents is higher than the one for goods and services. Due to the fact that young people nowadays own smartphones very early and are mainly interested in games and other digital contents, these figures are easily explained. The situation changes for all age groups older than 20 years. Their main online activity is to purchase goods and services, followed by digital contents, internet auctions, online financial transactions and blogs (in this order for people between 25 and 55 years). Internet auctions are most popular for Japanese consumers in their thirties, reaching almost 30 percent of their online activities (Takahashi 2009).

Figure 6: Usage of e-commerce by type and age group



Source: Takahashi 2009, OECD Conference

Last but not least, the internet is also an opportunity to buy goods that are not available throughout the country. Consumers from the north of Japan are nowadays able to buy food products from farmers in the south, for example. The same is true for regional specialities that are very typical for the Japanese (food) market. But this increased availability of products does not stop at Japanese borders. By shopping online, Japanese consumers are also able to buy overseas products that do not belong to the range of products physical Japanese stores offer. By following this argument, it becomes apparent that Japanese consumers with special interests (like fans of specific music, bands or sports) are likely to be very active in online shopping. And, although Japan is a collectivistic country were the majority of people does not want to attract too much attention by appearing strikingly different, there are individuals who are looking for rare fashion items and accessories. These products could have been produced by overseas brands as well as by small and medium domestic enterprises (SME) or start-ups whose only sales channel is the internet in their initial phase. Furthermore, there are some products where Japanese companies are generally not able to offer the same quality as overseas producers. In the case of wine and cheese, for example, Japanese consumers are more likely to favour imported over domestic products (Haghirian 2015: 534).

iv. Japanese (online) consumer behaviour

Since the beginning of the 21st century new influential consumer groups have emerged in Japan. Besides the price-conscious low-income earners there are the groups of the baby boomers, the new rich, single women and the *otaku*[3]. The fact that many Japanese consumers became more price-conscious (regarding generic goods, leaving luxury products mainly unaffected) in the recession years was also observable through the opening of 100-Yen shops which became highly popular in these times. But nevertheless, Japanese consumers are still enormously looking for luxury

[3] Otaku: a person with obsessive interests, mainly in manga and anime. Otakus spend a lot of time and money for their hobby.

products from Western respectively European countries. Next to these two strains of development consumers started to purchase more rationally and are more interested in health–promoting products, such as organic foods. Buying second-hand apparel and consumer goods became fashionable which it was not in the boom years. The economic developments since the 1990s and the economic crisis in 2008 as well as stagnating wages and a shrinking middle class made Japanese consumers looking into the future in a more pessimistic way. Although these developments seem to be not favourable for establishing a business in Japan, there are still Japanese particularities that make the Japanese market one of the most promising in the world. Many Japanese consumers are still highly interested in new products (*shinhatsubai*) and demanding first-class service. Segmenting them into different consumer groups to target them with specialized products and services seems to be a good strategy to participate in the sophisticated Japanese market. Due to the collectivistic nature of the Japanese society it is more likely that products are chosen because of social norms rather than personal preferences. Therefore, Japanese consumers rely more on the opinion of the peer group. Once they are positive about a band or a product they often stick to it since loyalty is one of the key concepts in collectivistic societies. Their love for brands is often expressed by luxury brand products. Expensive handbags are a common example for the category of fashion items (Haghirian 2015: 530-541).

There are several peculiarities that lead to minor as well as major changes in many fields related to e-commerce. First, already at first glance, Japanese websites look different from online shops in other parts of the world. Websites in Japan are commonly very colourful and busy while their European and American counterparts are often much more simple and clearly structured.

One example for the **adaption of websites** for the Japanese market is the German underwear company Triumph which revised its web presence for Japan. Since the country is one of their key markets the company took into account the differences in internet usage and online shopping behaviour. Therefore they created a completely revised content and IT concept which includes a more complex brand and product segmentation and a direct access to the online shop. Thus, Japanese consumers are able to choose different search categories which are important for Japan (edicos 2010).

Due to the density of the country and a very **efficient delivery system**, Japanese customers are used to very short shipping times. In many regions of Japan (central Japan), customers get their orders within the same day. In more rural areas people have to wait one at the utmost two days (Hokkaido and Okinawa, for example). If a foreign company decides to deliver internationally they have to clearly communicate to their Japanese customers that delivery time will be longer as normally expected. But, longer shipping hours for exclusive products is not necessarily a shortcoming. Companies can also try to promote it as an indicator of exclusivity and luxury.

With TA-Q-BIN the Japanese Parcel Delivery Service KuroNeko Yamato Transport offers a next day delivery nearly anywhere in the country (with some exceptions). Without any extra charge, customers can select time zones in which their parcel should be delivered (see figure 8). In case the recipient is not at home when the parcel should be delivered for the first time, a second delivery until 9 p.m.at the same day can be arranged.

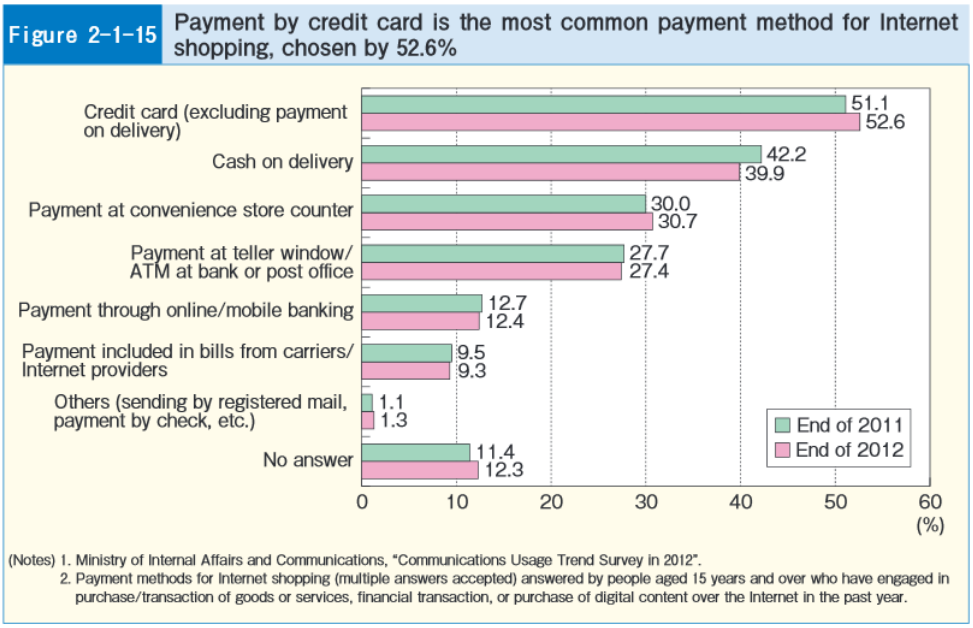
Figure 7: Time Zone Delivery of KuroNeko Yamato Transport

Source: Yamato Transport 2015: http://www.kuronekoyamato.co.jp/en/personal/ta_q_bin/

Besides credit card **payment**, cash on delivery and bank transfer there exists one Japanese peculiarity: Convenience store payment. Although the biggest share of online shopping is paid by credit cards in Japan (more than 50 percent in 2012), many Japanese consumers like to pay goods they have ordered online at their local convenience store (30 percent). Convenience stores (short: *kombini*) are ubiquitous in Japan, especially in metropolitan areas where they can be found in train stations, for example. Convenience stores like SevenEleven, Lawson or Family Mart are very popular in Japan and Japanese consumers are, thus, very familiar with them.

Depending on their main target group, companies should carefully choose their offered payment methods. There are groups within the population that probably do not own a credit card (e.g. students and other young people), but could be a major target group for the company's products. According to a survey of the Ministry of Internal Affairs and Communication (see figure 9), there are some slight changes in the preferred payment methods of online shoppers from 2011 to 2012. The popularity of credit card payment (excluding payment on delivery) and payment at the local convenience store have been chosen more often compared to one year before. The remaining payment methods cash on delivery, payment at a branch bank and mobile payment were slightly less popular in 2012 (White Paper on Consumer Affairs 2014).

Figure 8: Payment methods chosen by Japanese online shoppers



Source: White Paper on Consumer Affairs 2014 http://www.caa.go.jp/en/pdf/whitepaper2014_1.pdf

Japan has a very sophisticated **gift giving tradition**. Since every season has its special dates for giving gifts, seasonal holiday promotion is an important marketing tool for every e-commerce merchant in Japan. Overseas companies planning to enter the Japanese market should consider preparing special offers since the Japanese gift tradition represents good potential for foreign exporters.

“Major Japanese retailers - department stores, supermarkets, net retailers, and even convenience stores and some discounters - hold special sales events every six months to cater to customers wishing to send gifts to business contacts, clients, teachers, respected elders, etc: a large event takes place at the end of each year (*seibo*) and a smaller one in July (*chūgen*).The majority of these gifts consist of food items, many of which are high end and imported. Organic items that have begun appearing in seasonal gift sets are organic coffees, teas, soaps, vegetable oils, and cotton products. Entering such a market might be especially advantageous for an organic exporter, since seasonal gifts are typically produced in limited quantities and sold at premium prices.” (Ato 2013)

Customer service and quality perception are two of the most important aspects for companies that want to be successful in Japan. Even or especially when shopping online Japanese consumers have high expectations regarding after-sales services and general customer support. Ethnocentrism that is often used to describe Japanese buying behaviour can largely be explained by the expectation that after-sales service of Japanese companies is much better than in the case of foreign ones (Haghirian 2015: 534). Due to the missing staff advise that can be expected in physical stores online merchants have to find convenient opportunities for their clients to get in contact with the company. Therefore, the most common support options are e-mail and phone. Both of them with their own pros and cons. While the costs for e-mail support are lower, some complaints could require multiple contacts between the customer and the service team. Although the place from where the support team operates can be chosen freely, some interaction could require phone support which, in general, is often able to solve the problems of the customers in a better way. For phone support, Japanese speaking staff is necessary that operates at least analogous to the opening hours in the Japanese time zone.

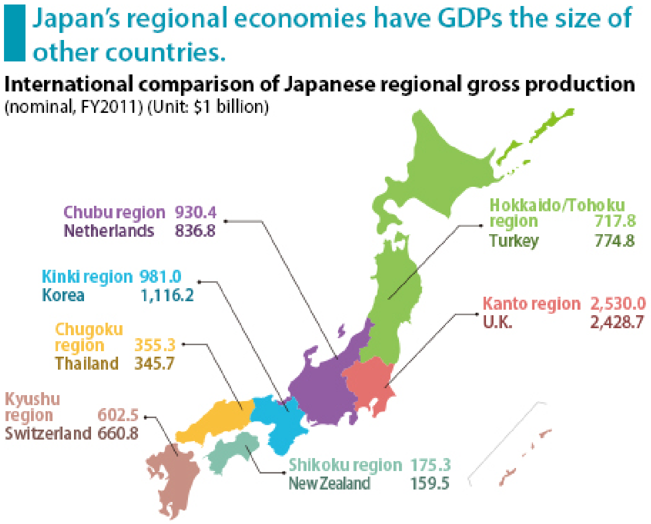
“Quality in Japan is a property which must permeate every aspect of a product, including continuous attention to improvement. If Japanese consumers are satisfied with the quality of the product a company is offering they might buy from the same company again; however, if the customer is dissatisfied with the quality then they will usually never again buy a product from the company, and the reputation of the firm could be spoiled for years.” (Haghirian and Toussaint 2011: 23 cited in Haghirian 2015: 534)

In Japan as in many other countries there exists a **point system** in many online shops that should motivate consumers to become a loyal and regular customer. At Rakuten, for example, Japanese consumers get Rakuten Super Points for every purchase they do depending on the value of their purchase. When they have collected a certain amount of points, consumers can use their points like cash on the Rakuten platform. This marketing tool let to the phenomenon that consumers started to try products like clothes in physical stores to get an impression of the product and to know whether it fits or not. Even if they like the product in the store and the price is not different from the online price, they probably will not buy the products in a shop. Instead, they will order it online to earn points that can be redeemed later on (Rakuten 2015: n.p.). Lately, Rakuten even started to cooperate with offline leisure activity providers amongst others where Rakuten customers can also collect points.

b. Market size, trends and profitability

In general, the Japanese market is a very sophisticated one. Although Japanese economy stagnated between 2010 and 2014, the GDPs of the seven regions (Hokkaido and Tohoku combined to one) had the size of countries like the Netherlands, Switzerland, Korea or New Zealand, for example (JETRO 2015 b).

Figure 9: Regional GDPs in Japan in (international comparison)

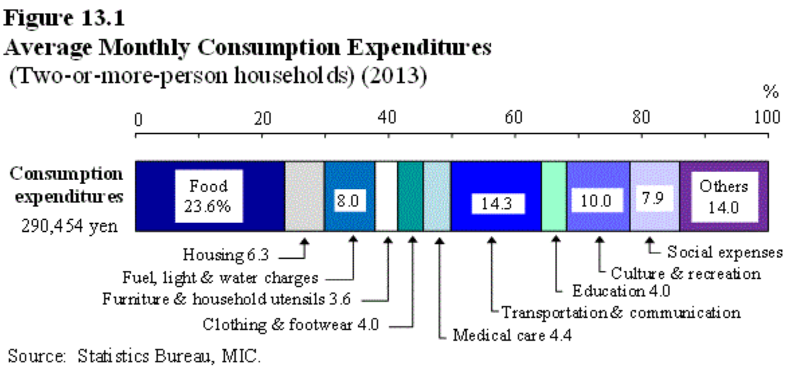


Source: JETRO 2015b

In 2014 the population of Japan was 127.1 million showing a decreasing trend. The growing share of elderly people within the population is characteristic for the island country. As for other developed countries, too, the share of all other age group is shrinking in sharp contrast to the citizens at the age of 65 years and older. The low marriage and fertility rate will further support the aforementioned development. Thus, products for the so-called "silver market" and single-person households will continue to be strongly demanded.

According to the OECD the average household net-adjusted disposable income per capita is USD 26,111 (3,209,968.86 Yen) a year with average monthly consumption expenditures per two-or-more-person household of 290,454 yen (in 2013). The highest share of consumptions expenditure is spent for food products, housing and transportation. Interestingly, consumption expenditures for two-or-more-person households before the tax increase in March 2014 was 345,443 yen (+18.93 percent) and thought to be highly effected by last-minute demand (Statistical Handbook of Japan 2014).

Figure 10: Average monthly consumption expenditures



Source: Statistical Handbook of Japan 2014

i. Development of the e-commerce market in Japan

In the beginning of the century Japan was the largest internet market in Asia and the second largest in the world (Lafage 20111: 42). Although China recently overtook Japan as Asia's largest e-commerce market (see also figure 11, The Economist 2012), the market prospects for Japan are still very promising, especially since the Japanese and the Chinese market are very different in terms of consumer preferences.

Figure 11: E-Commerce sales in Japan and China

Source: The Economist (2012)

In its early phase, between 1998 and 2001, the B2C internet market in Japan grew rapidly from 0.5 to 11.6 billion Euros. In Japan, e-commerce was more or less introduced by Amazon at a time when the distribution of i-mode[4] was increasing (Lafage 2011: 42). This trend continued for the following years and let to a 2.5 times growth within 7 years (2005: 3.5 trillion Yen, 2012: 9.5 trillion Yen) (White Paper on Consumer Affairs 2014). Competition was already severe in the first phase of e-commerce in Japan. In December 1999 the number of e-commerce websites hit its peak with 23,000 shops. Just one year later, the number of shops has already decreased to 15,000 (Lafage 2011: 43).

Figure 12: E-commerce market size in Japan between 2005 and 2012

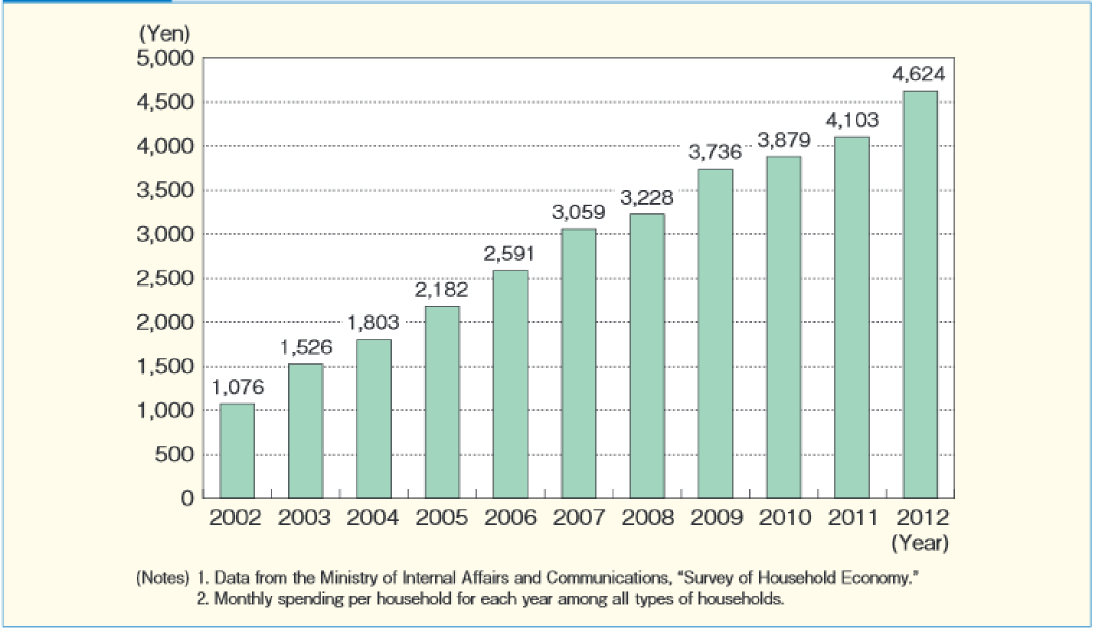
Source: White Paper on Consumer Affairs 2014 http://www.caa.go.jp/en/pdf/whitepaper2014_1.pdf

Together with the enlargement of the online shop user base, the spending per household increased, too. In 2002, the monthly spending for online purchases was 1,076 yen per household. Within ten years, this figure increased more than 4-fold and reached an average monthly spending of more than 4,500 yen (see figure 13).

Figure 13: Household spending via internet in Japan

[4] I-mode: mobile internet introduced in Japan by NTT DoCoMo in 1999

Figure 1-1-9 Household spending via the Internet is increasing

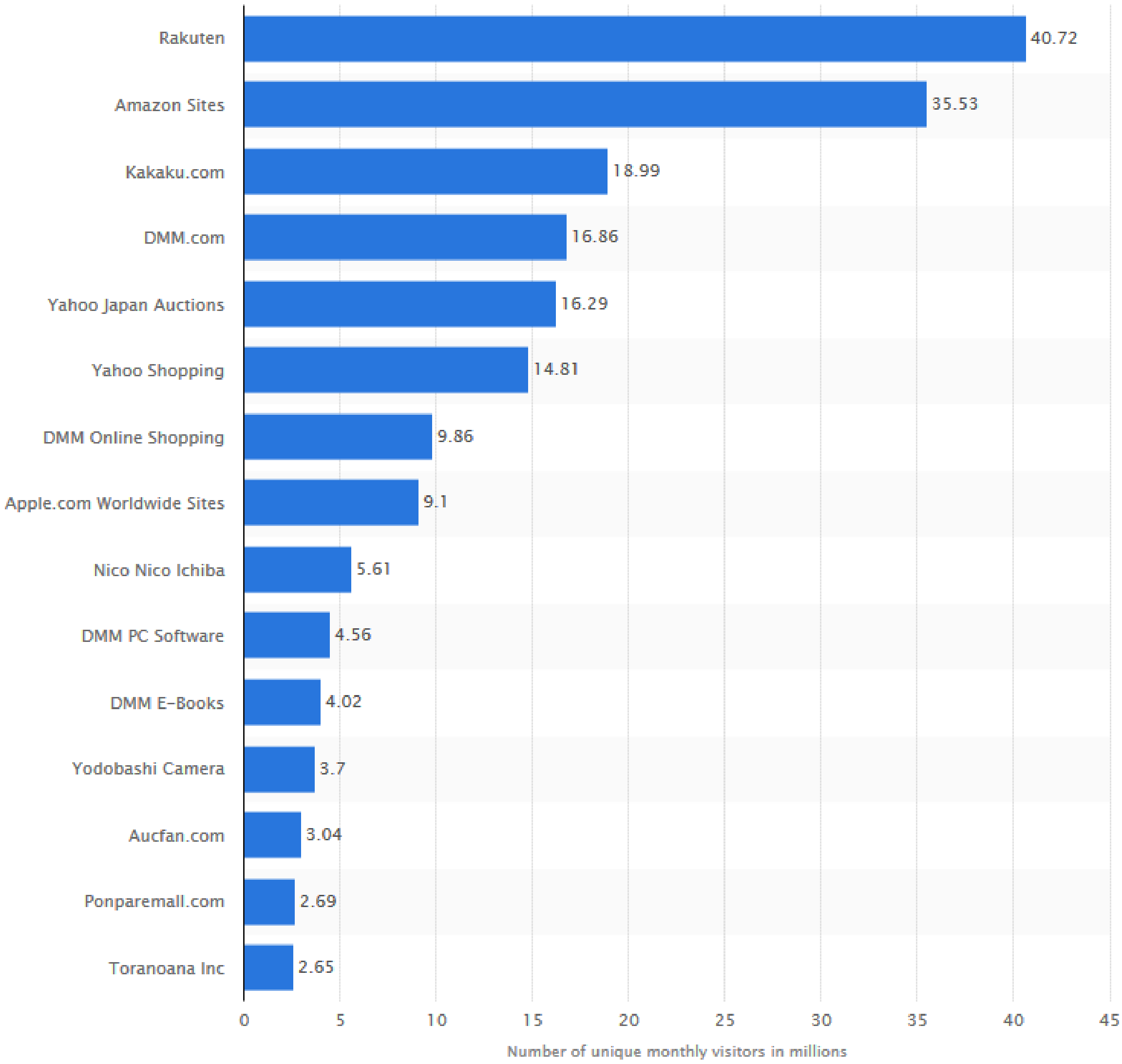


Source: White Paper on Consumer Affairs 2013 http://www.caa.go.jp/en/pdf/whitepaper2013_2.pdf

70 percent of Japanese online users already shop online. To ensure further growth like in the years 2012 (12 percent) (The Economist 2012) and in 2014 (14 percent), future increases will have to come from even higher spending per consumer (Euromonitor 2015).

The most popular online retailers in Japan in 2014 based on number of unique visitors (in millions) were, again by far, Rakuten and Amazon. More than 40 million Japanese consumers visited Rakuten on a monthly base, followed by Amazon with more and 35 million. Yahoo! Japan Auctions and Yahoo! Shopping followed with great distance at the places 5 and 6 (Statista 2015). On average the users stayed more than 30 minutes (32.9 minutes) at Rakuten when they visited the website. In comparison, the visits at Amazon were only a bit shorter (27.4 minutes).

Figure 14: Number of monthly visitors of Japanese online shops



Source: Statista (2015): http://www.statista.com/statistics/326317/japan-online-shopping-properties/

In general, future prospects of Japan's overall consumption growth should be regarded with suspension. It has to be seen how far Japanese consumers cut their spending for shopping due to an uncertain economic outlook, the unknown results of Abenomics[5] and the consumption tax increase. While other retail channels will probably be effected in a negative way, internet retailing is expected to grow further (Euromonitor 2015).

Still, popular online purchases (for all devices) are books, computer hard- and software, apparel, consumer electronics, movies, music and food. The segment of foods and drinks is expected to grow with the compound average growth rate (CAGR) of 8.7 percent between 2014 and 2018 while reduced sales of offline retail stores are forecasted (Agriculture and Agri-Food Canada (2015: 7).

[5] Economic policies by the Japanese Prime Minister Shinzō Abe. It includes three so called "arrows": fiscal stimulus, monetary easing and structural reforms to help the Japanese economy the recover.

ii. Is there a pricing strategy?

As already mentioned, the opportunity to buy goods cheaper in online shops is one of the reasons why people decide to order goods via internet. Especially for people with lower incomes this could be an important alternative to physical stores. But also people who are looking for extraordinary products that are rarely available have to be seen as an important target group for online shops.

In the case of consumer interest in overseas products, at first glance, there seems to be nearly no difference between prices of Amazon US and Amazon in Japan. Table 3 presents prices of 8 randomly chosen consumer goods at Amazon US and Japan. The case of iPhone 6 has to be considered carefully since NTT DoCoMo is the only provider in Japan who offers this smartphone.

Interestingly, the watch of the Japanese producer Seiko is 50.59 percent more expensive in Japan itself compared to the US. All other price differences are more or less marginal and, thus, do not show any significant trend for a pricing strategy of Amazon that differentiates between the US and the Japanese market. (Of course, further investigation has to be done to get statistically significant results that could be generalized.)

Table 3: Price comparison for Amazon US and Japan

Product	Price US in USD	Price Japan in Yen	Price Japan in USD	Difference (Japan – US) in USD	Difference in percentage	Comment
iPhone 6	694.99	58,299	469.22	-255.77	-32.48 %	NTT DoCoMo branded
Samsung Galaxy S6	629.00	97,000	780.70	+151.70	+24.12 %	Exactly the same product
Onitsuka Tiger Mexico 66 Classic Sneaker (blue/white)	55.72	7,569	60.92	+5.20	+9.33 %	Same product, but sold via Amazon marketplace, not Amazon directly
Kindle Paperwhite (new model)	139.00	16,280	131.03	-7.97	-5.73 %	Exactly the same product
Seiko Women's SUP250 Analog Display Japanese Quartz Black Watch	119.00	22,561	181.58	+62.58	+52.59 %	Exactly the same product
Ray Ban RB3447 Round Metal Sunglasses, 50mm	102.85	13,662	109.96	+7.11	+6.91 %	Exactly the same product
Fred Perry Men's Twin-Tipped Polo Shirt (Size L)	85.00	10,271	82.67	-2.33	-2.74 %	Same product, one price for all sizes in Japan (in US not)

Source: Prices collected by the author on Amazon US and Amazon JP, August 20, 2015

c. Main players

When looking at main players and most important sectors of e-commerce there are three different types of e-commerce that have to be distinguished: business-to-consumer (B2C), business-to-business (B2B) and consumer-to-consumers (C2C) commerce. All three sector are quite different from one another regarding actors, products and sales values. Therefore, each type of e-commerce will be discussed in a separated sub-chapter in the following.

i. B2C internet market

The business-to-consumer market in Japan can be divided into two categories: goods and services. While the retail (goods) category still dominates with business transaction amounting to 1,891 billion Yen compared to 1,496 billion Yen for services, the growth rate for the service sector was higher in the investigated period.

Table 4: B2C-market sectors
(in billion Yen, in brackets : e-commerce share of whole retail in each category in percentage)

Category	2012	2013	Year-on-year rate (change in percentage)
Retail trade	1,891 (5.05)	2,200 (6.39)	16.4
Apparel, jewellery	175 (1.33)	220 (1.65)	25.8
Foods	605 (0.96)	706 (1.08)	16.7
Automobile, automobile parts, furniture, household goods, electronic appliances	1,426 (4.29)	1,648 (4.84)	15.6
Drugs, cosmetics	501 (4.02)	603 (4.56)	20.4
Sports, books, music, toys	400 (2.74)	467 (3.26)	16.6
Services			
Hotels, travelling, restaurants	1,496 (6.16)	1,826 (7.38)	22.1
Entertainment	147 (0.94)	166 (1.19)	12.9

Source: METI cited in Sauermost 2015: 17, translation by the author

The first three places of Japan's top 10 online retailers go to the three big player: Amazon Japan, Yahoo! Japan Shopping and Rakuten (see also table 5) which offer a wide variety of goods and belong to the e-commerce marketplaces. Besides these three big shops there are also popular shops that are specialised in a specific category, e.g. apparel (apparel-specific marketplaces), hosted e-commerce services and installable solutions.

Table 5: Japan's top 10 online retailers

1	Rakuten	Largest e-commerce retailer (80 million users)
2	Amazon	Biggest online book retailer; also offers general merchandise
3	Yahoo	Online information portal that offers online shopping in addition to its search engine and internet directory
4	Japanet Takata	Direct sales company, based in Kyushu. Established in 1986, started online sales in 2000
5	Senshukai	Catalog retailer
6	Start Today	Operates ZoZoTown website, established in 1998, speciality is apparel
7	Nissen	Mail-order/catalog retailer targeting women 25 to 59
8	Joshin Denki	Leading large-scale discount consumer electronics chain operator
9	Dell	Dell's Japanese subsidiary, sells PCs and peripherals
10	Stream	Online retailer of PCs and home electronics

Source: Salsberg and Morita (2012)

According to different sources, Rakuten and Amazon together account for roughly 40 percent of the Japanese e-commerce market (Rakuten 28.8 percent, Amazon Japan 12.4 percent, Yahoo! Japan Shopping 6.2 percent). The two biggest players have grown significantly in recent years and still keep growing.

Amazon Japan had been launched in 2000 and nowadays reaches 62 percent of all online shoppers in Japan. It is interesting to notice that Amazon is the only non-Japanese online retailer that is able to get any significance in the country (excluding Yahoo! Japan which is a shopping portal and not a retailer). With free shipping and same-day delivery Amazon offers an important service that created consumer loyalty. Therefore, many competitors have tried to copy this successful service recently. Amazon Japan is still trying to broaden its variety of offered goods by enhancing sales in foods and fashion. In addition, the company is working on a Japanese version of the Kindle, an exclusive e-book-reader, and the expansion of their distribution centres on the island (Salesberg and Morita 2012).

With its two main competitors Amazon and Rakuten and severe problems in expansion, **Yahoo! Japan** had hard times to go through. Because of the fact that Yahoo! Japan is a joint venture between Yahoo and Softbank Corporation, Yahoo! Japan was not allowed to use the Yahoo! Japan brand outside of the country. With a wider scope of services and more employees, Rakuten was able to overtake Yahoo (Lafage 2011: 48).

Rakuten which has been founded in 1997 by Hiroshi Mikitani has also become known outside Japan. It was the first online shopping mall where it was possible to buy a huge variety of products and services including foods, insurances and foods, for example. Rakuten-ichiba started as a compilation of different shop and steadily enlarged its business: e.g. Rakuten Books in 2000 and Rakuten Travel in 2002. All in all, rakuten offers more than 95 million products from more than 35,000 associated merchants whose sales are reaching 1 trillion Yen. 76 percent of Japanese online shoppers say that they visit rakuten from time to time (Salesberg and Morita 2012). Since 2005 Rakuten is also active in the auction market with Rakuten Auctions which is a joint venture with NTT DoCoMo (Lafage 2011: 44). Meanwhile Rakuten is also shipping worldwide (Rakuten Global Market). Against the background of being Japan's largest online shopping mall Rakuten promotes the fact that shopping there is secure, customer support is also available in English and that consumers get points that can be redeemed later on (for the point system see also part 5.a.iv.).

To get an impression of one specific B2C category apparel shops will be introduced below. **Zozotown** is the largest fashion commerce website in Japan and start today, the company that runs the website, is still acquiring more e-commerce related companies. Lately, the company bought the e-commerce solution provider Aratana and the DIY (do it yourself) e-commerce start-up stores.jp already in 2013 (Mitsuhashi 2015). Although the website of Zozotown is only available in Japanese overseas shipping for international customers has also been introduced. That information is the only one given in English (see also figure 16).

Otto Group was founded by Werner Otto in 1949 who hereby created one of the most important mail order firms in Germany. The company rapidly started to grow and to become a large-scale enterprise. In the 1980s, Otto Group internationalised enormously under its new CEO and became the biggest mail order company in the world. As early as 1986 Otto-Sumitomo Inc. had been founded as a joint venture between Otto Group and the international trading house Sumitomo Corporation with its headquarter in Tokyo. Meanwhile Otto Japan has become one of the leading multi-channel retailers for high-quality apparel and exclusive lifestyle products in Japan. Thus, in 2007, Otto Group took over the shares of Sumitomo Corporation and renamed the company Otto Japan. Due to the technical affinity of many Japanese consumers online and mobile shopping play important roles in the multi-channel mix with the product focus on Otto and Fabia brands. As of 2015 Otto Japan has about 400 employees and 60 stores in Japan (Otto Group 2015).

Figure 15: Welcome pages of Zozotown, Fabia (Otto) Otto Japan and Otto Germany

Sources: ZoZotown http://zozo.jp/ Fabia http://www.otto-online.jp/fabia/
Otto Japan http://www.otto-online.jp/ Otto Germany https://www.otto.de/

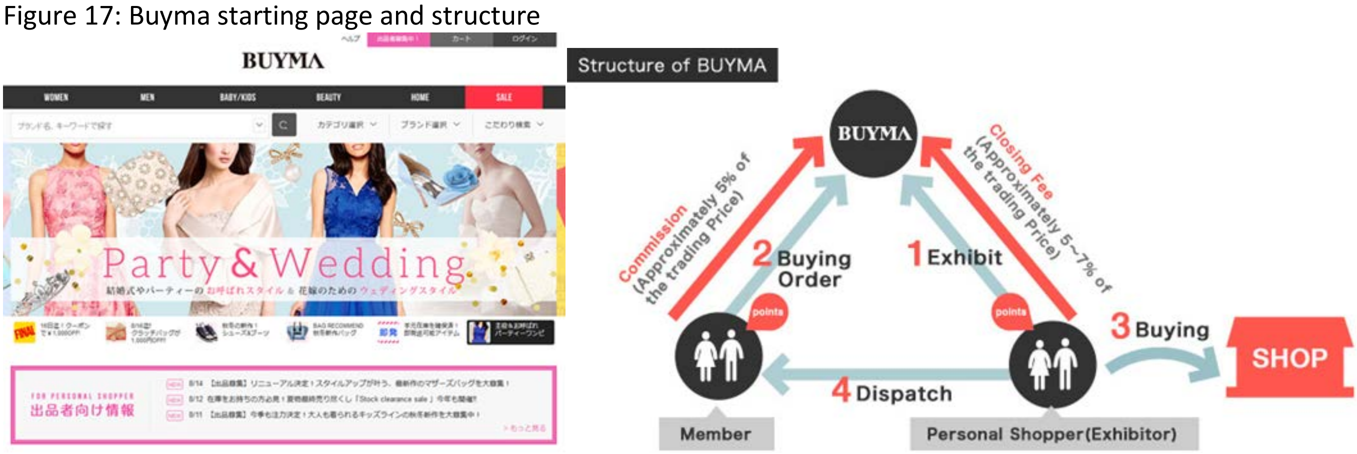
AEON Square is the online shopping portal of AEON, the largest retailer in Japan (and even in Asia) with more than 360,000 employees and 13,501 locations in Japan (2,874 overseas). Thus, the portal started in 2012 with already 7 million members. Besides a huge variety of shopping items the portal also offers lifestyle information to enhance consumers' convenient and joyful shopping experience. Information are given on best-buy items and campaigns, while all is closely linked to other online services of AEON Group.

Figure 16: AEON Square

Source: AEON Square http://www.aeonsquare.net/

Enigmo Inc. operates the social network-type shopping website **Buyma** which has been founded in 2004. As of January 2015 the company had 47 employees and a capital stock of JPY 381,500,000. The website provides a special shopping experience for fashion items through a unique C2C service that connects individuals worldwide. More than 8,700 items are provided per day for personal shoppers in 115 countries. The items can be divided into different (price) categories like low price brands, unreleased brands in Japan, trend items, rare items or luxury brands. Depending on category there are between 250 thousand and 900 thousand items exhibited. Due to their huge success in Japan the company started to internationalize by serving Chinese and English speaking markets in 2015.

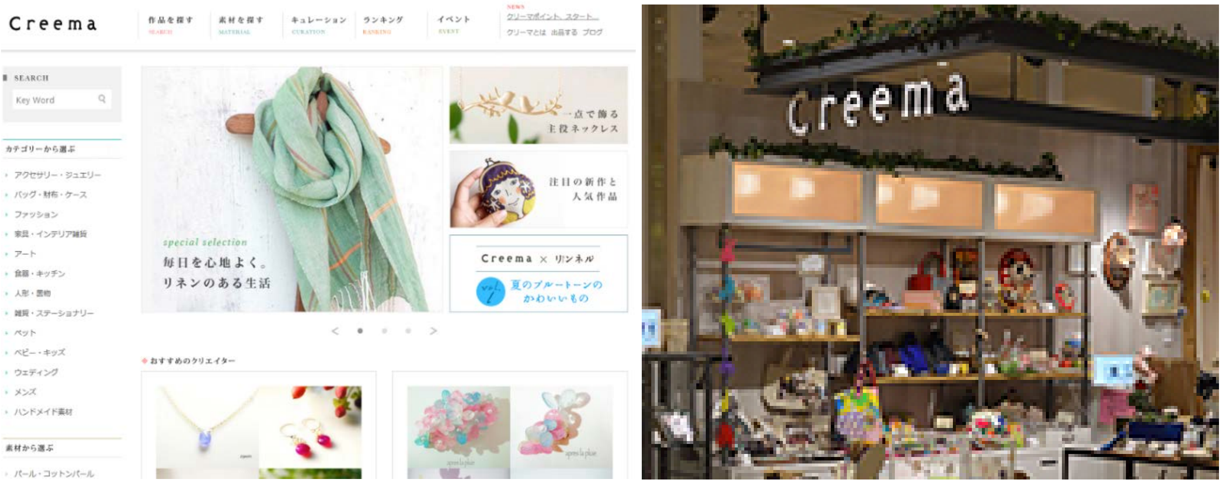
Figure 17: Buyma starting page and structure



Source: http://www.buyma.com/ and http://www.enigmo.co.jp/en/ir/business/buyma/

The online platform **Creema** has to been seen like a mixture of B2C and C2C provider since the homepage is acting like a mediator between buyers and sellers of self-made items (like Dawanda in Germany e.g.). Besides their online business the company is also trying to expand their offline business by opening Creema stores. One store is located in Lumine in Shinjuku, a shopping mall with more than 200 shops and restaurants.

Figure 18: Creema online and offline shop



Source: http://www.creema.jp/ and http://www.creema.jp/creemastore

Table 6: Japanese online shops overview (selection)

Online Shop	Foundation	Products/Service	Visitors/members	Global rank	Peculiarity
Aeon Square	2012	Wide variety: cosmetics, electronics, foods…	Daily visitors: 46.5K	13,749	Home Delivery and pick-up Service
Amazon Japan	2000	Wide variety: books, music, apparel…	Unstated	-	Offering marketplace for private sellers
Belluna	1968 (mother company)	Mail/online: apparel	Daily visitors: 55.3K	10,349	Mail and inline order
Buyma	2004	Fashion items	2,235,261 members	-	Customers from more than 115 countries
Creema	2009	DIY products	More than 1,000,000 members in 2014	-	Mediator between buyers and sellers
DeNA	1999	mobile and online services	Registered users: 50.000.000	-	Provider of games, e-commerce and entertainment content distribution
Dinos Ceclie	1971 (mother company)	Wide variety approx. 10,000 items	Daily visitors: 781	746,999	Mail-order by catalogue, internet, magazines International shipping
Otto Japan	1986	Women apparel and accessories	Daily visitors: 25.9K	24,475	Multi-channel retailer
Yahoo! Japan Auctions	1999	Auctions	Daily visitors: 3.96M	16	Most popular auction site in Japan with more than 24,000,000 items

Source: collected from several websites by the author, note: DIY = Do it yourself

ii. C2C internet market

In Japan the market situation for consumer-to-consumer auction providers is quite different compared to other countries were eBay started its business. Due to the huge opportunity the Japanese market represented in 2000 **eBay** launched its website on February 28. The fact that **Yahoo! Japan Auctions** had already been introduced half a year before influenced the performance of eBay Japan dramatically. Yahoo! Japan Auctions which is a joint venture of Yahoo! Holding and the Japanese mobile communication provider Softbank Corporation had already been popular at that time. Also two years later, in 2002, the distribution of market shares was more than clear-cut. Yahoo! Japan was holding more than 95 percent of the market shares while eBay Japan hardly accounted for 3 percent of the market (Japaninc.com 2007 cited in Lafage 2011: 41).

Table 7: Company data Yahoo! Japan Auctions and eBay Japan

Company	**Yahoo! Japan Auctions**	**eBay Japan**
Date of entry	September 1999	February 2000
Unique users	2,746,000	227,000
Time per visit	2.5 hours	9 min
Listings	2.2 million	3.500 (estimation)

Source: Lafage 2011: 42

Yahoo! Japan Auctions started its business in September 1999 and decided to start an aggressive marketing campaign half a year later when the company noticed that eBay was trying to intervene in the Japanese market. The campaign should discourage Japanese consumers to visit the website of eBay Japan (Lafage 2011: 43).

Figure 19: Yahoo! Japan Auctions

Source: http://auctions.yahoo.co.jp/

Of course, the failure of **eBay Japan** was closely connected to the success of Yahoo! Japan Auctions which exploited its first mover advantages in a way right out of the textbook. Since Yahoo! Japan Auctions did not take any commission for sales on the platform and eBay did (1.25 percent to 5 percent depending on the item sold), Japanese consumers did not have any incentive to change to another auction provider. Furthermore, eBay implemented measures that were not common in Japan like the need of credit card information submission to register at the platform. Many young people, an important part of the main target group of internet auctions, were not used to pay via credit card and did not possess one, either.

Another mistake eBay did when entering the Japanese market was to announce its start by far too early. So, interested consumers had to wait for a long time to try eBay after they have heard of its coming set up. This initial phase was also stressed by the need of continued improvements to make the website easier to understand and use. In March 2002, eBay decided to leave the Japanese market, because Yahoo! Japan auctions was still having the majority of Japanese auction customers, but announced to come back in due course (Lafage 2011: 42-47).

Figure 20: Starting page of eBay Japan

Source: http://www.ebay.co.jp/

After the withdrawal of eBay Japan the Japanese C2C auction market continued to increase steadily with two main players: Yahoo! Japan Auctions and **Rakuten Auctions**. Due to the huge success within Japan Yahoo! Auctions tried to enter other foreign markets, but failed by the reason of missing first mover advantages.

For a given time, Japanese consumers who wanted to buy overseas products were not able to buy at eBay (since there was no eBay in Japan) and Yahoo! Japan was limited to Japan. As a result of this, a parallel market of auctions has developed. Japanese consumers buy items on eBay.com and offer it at Yahoo! Japan Auctions or Rakuten at a higher price (see figure 22, Lafage 2011: 48/49).

Figure 21: Parallel market of auctions

Source: Lafage 2011: 49

iii. B2B business

The business-to-business trade is commonly divided into two subcategories: B2B in the wider and narrow sense. B2B transaction in the narrow sense are business transactions that are carried out via internet (TCP/IP protocols or VPN/IP – virtual private network). Additionally, B2B transaction in the wider sense also include electronic data interchange deals between two or more companies (GTI 2014: n.p.). According to METI (cited in GTI 2014: n.p.) the volume of the B2B business in the wider senses was 269 bill. Yen in 2013 compared to 262 bill. Yen in 2012. The overall growth rate of nearly 3 percent is quite different when looking at the subcategories. There are categories with high growth rates like construction and real estate with 13.8 percent, financial services with 37.5 percent and advertising and leasing with 10.4 percent. Other categories have a comparably lower or even negative growth rate (foods: -4.2 percent, iron and non-iron metals: -1.3 percent, electronic equipment: -2.1 percent).

Table 8: B2B-trade (sectors, wider sense)
(in billion Yen, in brackets : values for B2B business in narrow sense)

Category	2012	2013	Year-on-year rate (change in percentage)
Construction, real estate	9.5 (8.1)	10.9 (9.4)	13.8 (55.5)
Foods	21.08 (5.0)	20.9 (5.0)	-4.2 (0.7)
Textile, goods, chemistry	29.8 (19.9)	31.1 (20.8)	4.0 (4.5)
Iron, non-iron metals	16.2 (11.9)	16.0 (11.9)	-1.3 (-0.5)
Industry equipment, precision instruments	12.0 (8.3)	11.8 (8.2)	-2.1 (-1.0)
Electronic equipment	27.8 (19.7)	27.2 (19.4)	-2.1 (-1.5)
Transport equipment	35.5 (28.5)	36.0 (29.0)	1.3 (1.7)
IT	8.8 (7.5)	9.7 (8.3)	9.6 (10.2)
Transport	7.6 (6.6)	7.6 (6.7)	1.2 (1.6)
Wholesale	78.3 (50.9)	79.0 (51.8)	0.9 (1.8)
Financial services	11.7 (9.3)	16.1 (12.9)	37.5 (38.3)
Advertising, leasing	1.7 (1.5)	1.8 (1.7)	10.4 (11.2)
Retail	1.0 (1.0)	1.1 (1.0)	6.3 (2.8)
Miscellaneous	0.2 (0.2)	0.2 (0.2)	6.2 (5.2)
Total	262.0 (178.5)	269.4 (186.3)	2.8 (4.4)

Source: METI cited in GTI 2015: n.p.

According to the Statistical Handbook of Japan (2014) the internet usage rate among enterprises was 99.9 percent at the end of 2013, “which was the same rate as that of the previous year. Trends in the Internet usage rate remained flat, at around 99 percent, showing that Internet usage at businesses is fully diffused.” The general adoption rate of the internet varies according to firm size and business sector. “Firms in service industries are more likely to adopt the Internet than those in manufacturing and mining. In Japan, for example, firms with more than 300 employees were found to be four times more likely to adopt the Internet than firms with less than six employees.” (Coppel 2000 cited in Kshetri and Dholakia 2002).

In the global scheme, B2B trade is mainly dominated by multi-national corporations (MNCs). These companies are mainly based in the US, Europe and Japan and mostly use e-commerce for intra-firm trade. Since the top 100 MNCs are all located in the three aforementioned areas, it is not surprising that Japan is the leading B2B-commerce country in Asia (Kshetri and Dholakia 2002).

d. Key success factors, main challenges and opportunities

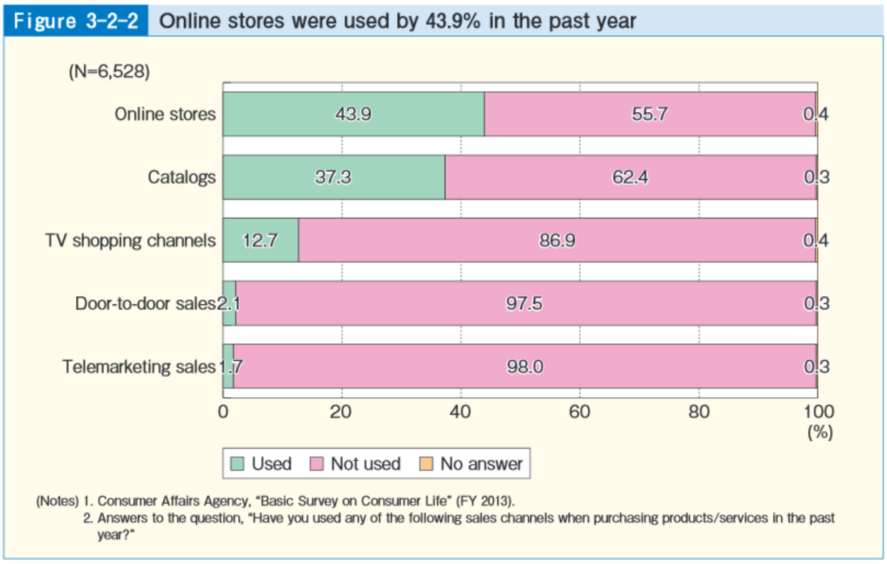
Online retail, as a part of e-commerce, is facing competition from offline retails store where consumers can get personal advice if they want to. But online shops also compete with other forms of retail, like mail order and catalogues. Especially the market for the elderly, the so-called “silver market” seems to be a good opportunity for online shops since the internet use of this consumer group is steadily increasing and the older consumers are getting familiar with the advantages of online shopping. To be protected against fraud is an important aspect throughout all consumers.

i. Competition between online and offline retail

In the part about the C2C-market there has already been mentioned that eBay experienced severe competition from Yahoo! Japan auctions, which is a direct competitor from within the same type of business. But online shops are also competing indirectly with other retail and service formats: offline retailers, outlets, import and export companies as well as antique shops, for example.

According to Lafage (2011) Japanese consumers were reluctant in shopping online when internet retailing started to evolve. As online sales are steadily increasing there seems to be a shift in the consumers’ attitude towards online shopping, although the majority of consumers still shop offline. In 2013 43.9 percent of the participants of a survey conducted by the Consumer Affairs Agency answered that they used online stores in the past year. That is more than catalogues (37.3 percent), TY shopping channels (12.7 percent), door-to-door sales (2.1 percent) and telemarketing sales (1.7 percent).

Figure 22: Sales channels usage of Japanese consumers



Source: White Paper on Consumer Affairs 2014 http://www.caa.go.jp/en/pdf/whitepaper2014_1.pdf

Of course, many physical stores have entered the online business. One example are the for Japan typical and ubiquitous convenience stores. Already in the year 2000 Lawson developed its own system called Loppi that enabled consumers to order concert tickets or make reservations for the train or plane directly in the shop by using an in-shop computer terminal. Seven-Eleven also jumped on the bandwagon and offered a service normally provided by a book store. By using a Softbank owned website to order a book, the consumer can pick it up the next day at the local seven-eleven store (Strom 2000: n.p.).

As a speaker of METI put it in the year 2000, convenience stores have been “an indispensable part of the mosaic that is electronic commerce. […] Without the convenience store, e-commerce in Japan would have more trouble taking off.” (Strom 2000: n.p.).

ii. The silver market: elderly Japanese and e-commerce

Although the aging population combined with the low birth rate has long been blamed to be responsible for low growth potential, the elderly have become a target group for offline respectively for online shops. The silver generation has a steady income and a lot of free time that, both, can be used for (online) shopping (Fujikawa 2012). Main advantages that attract the elderly consumers are home delivery and price advantages compared to offline retail. Once these consumers have tried an online shop and are satisfied with products as well as service they have the potential to become highly loyal customers (Lafage 2011: 43).

By increasing the use of internet and online shopping of elderly people in Japan e-commerce merchants can profit from the growing spending of this generation. In 2011 more than 40 percent of the consumption can be imputed to households whose individuals are 60 years and older. In 2000, their share had been around 30 percent. Contrary to these figures, consumption of those under 40 years is declining.

Not only products designed for older consumers are demanded, but also services like overseas travel including guidance. In cooperation with Toyota Motor Corp. the convenience store chain Seven-Eleven Japan started a delivery service. Since elderly people may have problems with daily shopping of healthy, fresh and affordable food, they can order their needed products or meals at the shop and their purchases will be brought to their homes. Thus, the share of elderly within the consumer base of convenience stores is quite high: 30 percent of the customers have been 50 years and older. To serve their need the product range has also been adapted, from mainly snacks and fast food to more supermarket-like products (fresh food, dairy items). Meanwhile, Rakuten has set up a shopping portal focusing on anti-aging cosmetics, health foods and luxury fashion items. In the case of general online shopping there are two additional trends to be mentioned. The older generation who has become familiar with online shopping purchases gifts for their children and grandchildren as well as antiques at auctions (Fujikawa 2012).

iii. Consumer trust in e-commerce

First, Japanese consumers were reluctant to order from the internet. Due to initiatives against fraud, the trust of Japanese consumers increased and together with the rising confidence, e-commerce sales continued to rise steadily. In a survey 71 percent of the respondents answered that they think they have not been a victim of malware and/or spyware within the last six month (Lafage 2011: 50). But the fear of being infected by mal- or spyware is not the only reason of having doubts on the security of online shopping. Furthermore, buyers are insecure of how to pay the goods they have ordered online. In the case of payment in advance, there is the risk of not getting the goods. And even when one of the payment methods is invoice or cash on delivery, there still can be problems with damaged or inferior quality goods.

Especially in the case of C2C auctions, the quality and physical appearance of goods that have been bought from private sellers can be seen as the biggest problem. Therefore, eBay as well as other professional online shops have introduced PayPal to reduce transaction risks (Lafage 2011: 39). If the buyer is not satisfied with the received good(s), he/she is able to report the case the PayPal and the company is going to inspect the transaction while the money paid is frozen at the seller’s account. When PayPal agrees with the consumer that the seller has broken the rules of the online shop or platform, the buyer gets the money back. Thus, PayPal is acting as a trust to give confidence to the consumer that even in cause of fraud he or she will be able to get back the money or get an acceptable item instead.

According to the White Paper on Consumer Affairs of the Japanese Government (2014) problems in e-commerce sharply grew with the increased usage of online shopping. The most often announced problem was the delivery of products that were dissimilar to those shown in the shops. In that case, returns and cancellations have not been satisfactory for the consumers. In 2013, the categories “clothing” (with wallets, handbags and shoes) accounted for 40 percent of the complaints and “educational and leisure goods” for 25.5 percent. Besides problems with domestic suppliers problems with foreign suppliers also increased. For cross-border trade main problems were the delivery of counterfeit products and suspected fraud mainly originated in China (White Paper on Consumer Affairs 2014: 16-17).

In their paper Chen and Dhillon (2003) identify three dimensions as well as several sources of trust in e-commerce. The dimensions of consumer trust are competence, integrity and benevolence which can be found in the centre of figure 24. In this case competence can be seen as the company’s ability to fulfil the promises the company has made. Previous experience with the shop, in a positive or in a negative way, are an important indicator of further transactions between the customer and the online shop. That goes together with integrity. To build long-term relationships with the customers it is important that the actions of a company are consistent, reliable and honest. For the third dimension, benevolence, the company should ensure the customer that consumer interest is more important than self-interest and that therefore, customer welfare has the highest priority. These three dimension work together to create overall trust that, in turn, supports the purchase intention of the consumers. To answer the question how the image of competence, integrity and benevolence can be established, the four umbrella terms of consumer trust sources are: consumer characteristics, website infrastructure, firm characteristics and interactions.

Figure 23: Determinants of consumer trust in e-commerce

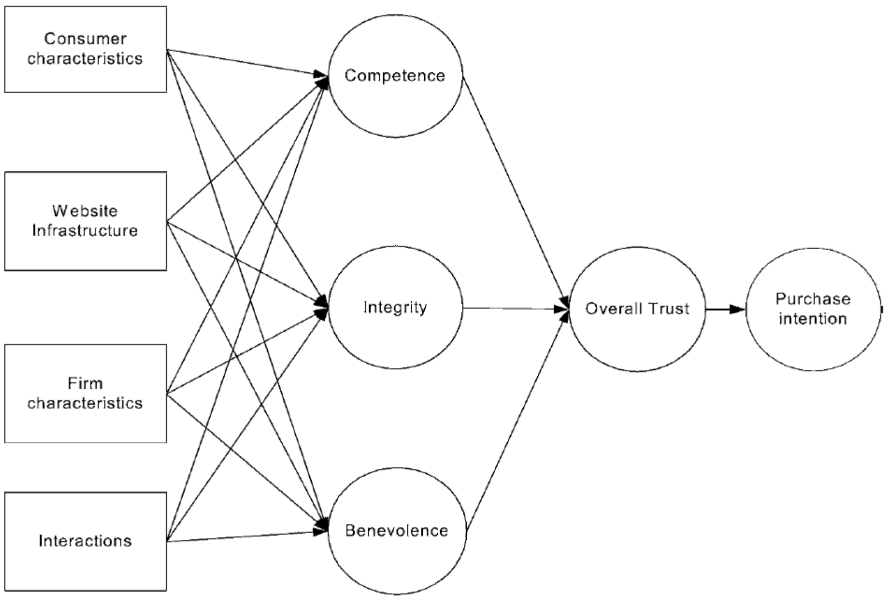


Figure 1. Path model of the determinants of consumer trust in E-commerce.

Source: Chen and Dhillon (2003: 314)

iv. The role of the mobile communications industry in (Japanese) e-commerce

The decreasing usage of home PCs to access the internet together with the increasing usage of mobile devices is an important aspect for the growing importance of e-commerce and, thus, for the mobile phone industry within the e-commerce sector. The Japanese mobile communication industry does not only offer the devices and communication infrastructure, but is also an active partner of e-commerce companies. Examples for the engagement of mobile communication providers and e-commerce joint ventures have already been discussed in the in this report before: Yahoo! Japan which as joint venture of Yahoo! Holding and Softbank Corporation as well as Rakuten Auctions which consists of Rakuten and NTT DoCoMo Inc. And there are more examples like this. Softbank is also engaged in the next-day book delivery service of Seven-Eleven, Yahoo! Japan and Tohan, Japan's leading book distributor (Strom 2000: n.p.).

According to recent news, Softbank is expanding its business significantly, especially in the e-commerce sector in East Asia. The company invested in Ola (India), GrabTaxi (Southeast Asia), Tokopedia (Indonesia) and Didi Dache (China). For the time being, this trend ended with a massive investment in Coupang (Korea) in June 2015. But Softbank did not only increase its scope geographically, the company also tries to diversify by entering the business fields of logistics and mobile apps.

The same is true for NTT DoCoMo. In 2013 the company acquired an Austria-based e-commerce service provider. By this deal, the Japanese company tries to expand its portfolio of finance and payment platform businesses in Europe. The main goal is to gain more insight of the online retail market for consumer goods (NTT DoCoMo 2013: n.p.).

e. E-commerce Expo Tokyo

E-commerce Expo Tokyo is the first B2B trade fair that focuses on E-commerce solutions in Japan. It is a good opportunity to get familiar with the latest products, services and solutions that allow companies to develop and operate platforms for e-commerce and web-shopping business. Besides the fair itself, there is also a huge programme with seminars and key note speakers from Amazon Japan, Rakuten, Yahoo Japan, ZOZOTOWN, UNIQLO, DeNA, MUJI, Nestle Japan and eBay Japan, to name only a few. The experts share their knowledge and personal experience in the fields of payment, delivery & logistics, marketing, customer Service & customer Retention, digital & mobile marketing, m-commerce, and Omni-channel strategies.

In 2015, the trade fair had more than 11,000 visitors and 90 exhibitors from all sub categories of the industry (see also table 9). According to the organizers the number of visitors is expected to rise to 14,000 in 2016.

The trade fair is also accompanied by a co-located exhibition, the Technology for Marketing and Advertising 2016 Tokyo.

Table 9: E-Commerce Expo Tokyo Buyer and User Companies

Buyer and User Companies

Retails/Wholesale/Distributors	21.1%
Web & Online Shops/Catalogue Shops TV Shopping	15.7%
Manufactures	14.3%
Web/Software Business Industries	7.3%
Service Industries	5.9%
Publish	2.7%
Financial Industries	2.6%
Real Estate	1.4%
Public Office & Associations	0.9%
Broadcast/Music Industries	0.5%
Educational & Medical Industries	0.2%
Agricultural Industries	0.1%

Source: E-commerce Expo Tokyo
http://www.ecommerceexpo-japan.com/en/index.php

6. Summary and Recommendations (Do's and Don'ts)

As discussed in this report, Japan is a promising target to invest in for e-commerce companies if they carefully examine the needs of their (potential) customers and the development of other actors as well as the market itself. Japan enjoys one of the highest diffusion rates of mobile internet and, in general, possesses a population with above-average interest in new technical developments. Although online shopping is becoming part of everyday life throughout all Japanese consumer groups, there are consumers who deserve special attention. The elderly and low-income earners belong to these consumer groups – with different needs and motives for using e-commerce services instead of offline retail. While the elderly often use the internet especially due to home delivery services that are offered, the main motive of low-income earners is to save money by comparing prices online.

In the case of Japan, there are several peculiarities that have to be considered to comply with the high expectations of Japanese consumers. Already at the first glance, Japanese websites look different compared to European or US ones. Furthermore, Japanese consumers are used to a very efficient delivery system and a payment peculiarity that is to pay at their local convenience store. Going along with special offers for the gift giving seasons, Japanese consumers expect an extremely sophisticated customer service, after-sales service and quality of products and services.

What happens when a company does not pay attention to its competitors and the given market conditions has been shown by using the example of eBay Japan. Having entered the Japanese market half a year after rival Yahoo!, eBay decided, by mischance, to charge for auctions and to require the buyer to register with credit card information what Yahoo! did not.

The overall development of the Japanese e-commerce sector has been characterized by steady growth after initial reluctance. The B2C internet market in Japan grow rapidly from 0.5 to 11.6 billion Euros between 1998 and 2001. Afterwards, between 2005 and 2012, this trend continued with a 2.5 times growth within 7 years. In 2013 the B2B sector accounted for 269.4 billion Yen with a year-on-year rate of 2.8 percent. With Yahoo! Japan Auctions, eBay Japan, Rakuten Auctions and shops like Creema the third pillar of e-commerce, C2C commerce, also sustained its importance in the e-commerce sector in Japan.

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JETRO	Why Japan? 5 reasons to invest in Japan https://www.jetro.go.jp/en/invest/whyjapan/
	Regulations http://www.jetro.go.jp/en/reports/regulations/
OECD	E-Commerce http://www.oecd.org/development/electroniccommerce.htm
	Taxation Aspects of Electronic Commerce: Publication of reports and technical papers http://www.oecd.org/tax/treaties/ecommercereportsandtechnicalpapers.htm
European Commission	Market Access Data Base http://madb.europa.eu/madb/datasetPreviewFormATpubli.htm?datacat_id=AT&from=publi
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